

Report of the auditor-general to the Limpopo Provincial Legislature and Council of Makhuduthamaga Local Municipality

Report on the financial statements

Introduction

1. I have audited the financial statements of the Makhuduthamaga Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting Officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1. of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting

estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Makhuduthamaga Local Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with SA standards of GRAP and the requirements of the MFMA and the DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Significant uncertainties

8. With reference to note 37 to the financial statements, the municipality is the defendant in a land-claim lawsuit. The municipality is opposing the claim as it believes the claim to be unfounded. The ultimate outcome of the matter cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

9. As disclosed in note 39 to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of an error discovered during 2016 in the financial statements of the municipality at, and for the year ended, 30 June 2015.

Material impairments

10. As disclosed in note 5 to the financial statements, material losses to the amount of R220 848 363 were incurred as a result of a write-off of irrecoverable receivables.

Additional matters

11. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited disclosure notes

12. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion

thereon.

Report on other legal and regulatory requirements

13. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives of selected objectives presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

Predetermined objectives

14. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information of the following selected objectives presented in the annual performance report of the municipality for the year ended 30 June 2016:
- Key Performance Area 2: Basic service delivery and infrastructure development on pages x to x
 - Key Performance Area 3: Local economic development on pages x to x
15. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
16. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
17. The material findings in respect of the selected objectives are as follows:

Basic service delivery and infrastructure development

Usefulness of reported performance information

18. The FMPPI requires that performance targets should be specific in clearly identifying the nature and required level of performance measurable. A total of 41% targets were not specific and measurable.
19. The FMPPI requires that performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use.

A total of 41% of indicators were not well defined.

20. The processes and systems that produced the indicator should be verifiable, as required by the FMPPI. A total of 41% indicators were not verifiable.

Reliability of reported performance information

21. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. The reported achievements against planned targets of 41% of indicators were not reliable when compared to the evidence provided.

Local economic development

Usefulness of reported performance information

22. The FMPPI requires that performance targets should be specific in clearly identifying the nature and required level of performance and measurable. A total of 43% targets were not specific and measurable.

Reliability of reported performance information

23. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. The reported achievements against planned targets of 29% of indicators were not reliable when compared to the evidence provided.

Additional matter

24. I draw attention to the following matter:

Achievement of planned targets

25. Refer to the annual performance report on pages x to x; x to x for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 18 to 23 of this report.

Compliance with legislation

26. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

27. The municipality did not establish a performance management system as required by section 38(a) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) or *Municipal planning and performance management regulation 8*.

Financial statements, performance and annual reports

28. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Procurement and contract management

29. Thresholds for local content on designated sectors' procurement were not properly applied in accordance with the requirements of *Preferential Procurement Regulation 9*.

Human resource management and compensation

30. The municipality did not develop and adopt appropriate systems and procedures to monitor measure and evaluate performance of staff in contravention of section 67(d) of the MSA.

Expenditure management

31. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.

Internal control

32. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

33. Leadership did not effectively exercise its oversight responsibility regarding financial and performance reporting and compliance as well as related internal controls.

Financial and performance management

34. Management did not implement proper record keeping ensuring that complete, relevant and accurate information is accessible, retrieved and available in a timely manner to support performance reporting.
35. Management did not prepare regular, accurate and complete performance reports that are supported and evidenced by reliable information
36. Management did not review and monitor compliance with applicable legislation

Auditor-General
Polokwane

30 November 2016



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence